



WEEKLY ECONOMIC DIGEST

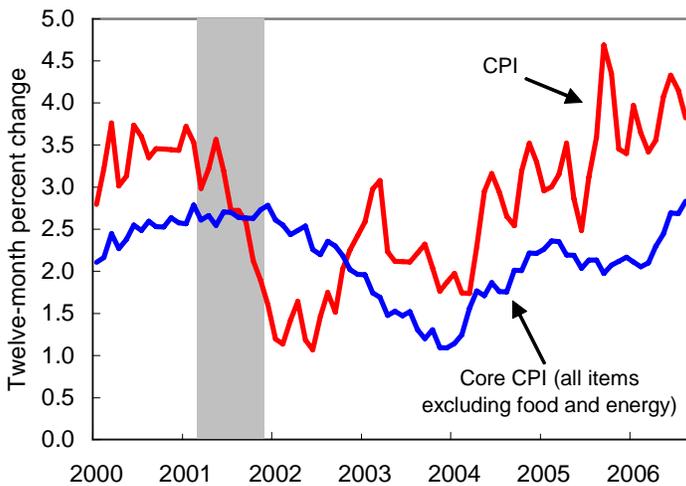


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 19, 2006

Inflation Remains in Check as Sales and Production Slow

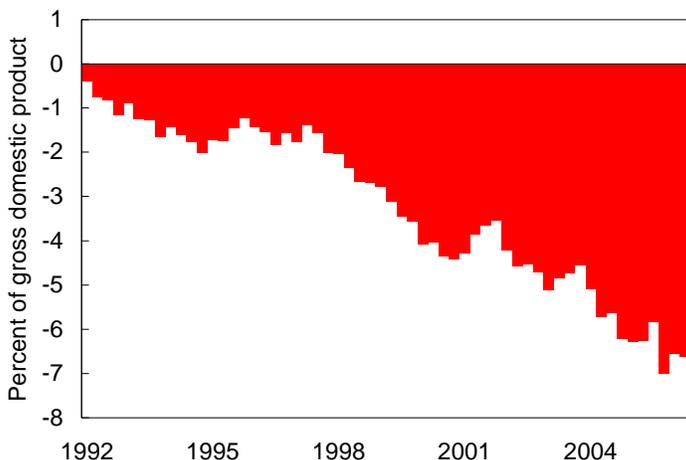
Consumer Price Indexes



Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

U.S. Current Account Balance



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- Inflation moderated in August.** The consumer price index (CPI) rose by 0.2 percent last month following a 0.4 percent rise in July, as energy prices rose by just 0.3 percent following a 2.9 percent jump in July. The core CPI (which excludes the volatile food and energy prices) rose by 0.2 percent in August, the same as in July. The overall CPI was 3.8 percent higher last month than it was a year earlier, and the core CPI was 2.8 percent higher (see top chart). After adjusting for inflation, the average hourly earnings of production or nonsupervisory workers in private nonfarm establishments are unchanged over the past 12 months.
- Retail sales slowed last month.** Total sales at retail establishments and food services grew by 0.2 percent in August, after a 1.4 percent rise in July. The slowing in overall sales reflected decelerating motor vehicle sales (up only 0.4 percent last month following July's 4.3 percent gain) and declining gasoline sales (down 1.0 percent in August). Sales excluding motor vehicles and gasoline rose by 0.4 percent and were a solid 7.0 percent higher than they were a year earlier.
- Industrial production edged down last month.** Industrial production in manufacturing, mining, and utilities declined by 0.1 percent in August, following a relatively strong average gain of 0.8 percent over the previous two months. Factory output was flat last month, but was 5.4 percent above its level a year earlier.
- The current account deficit remained large in the second quarter.** The U.S. current account deficit, which combines the balance on trade in goods and services with the balance on international income flows and transfers, rose by \$5.2 billion to \$218.4 billion in the second quarter. At 6.6 percent of gross domestic product, the second quarter deficit remained at an historically high level (see bottom chart). The deficit on goods and services rose by \$2.7 billion in the second quarter, and other data show that the trade deficit widened further in July. The deficit on income flows, which first emerged in the fourth quarter of 2005, rose by \$1.6 billion in the second quarter.

The Economy at a Glance	Aug	Jul	Jun	May	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.9	5.6	1.8	4.2	3.2	3.9
Industrial Production (% growth)	-1.2	4.9	14.0	1.2	6.6	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)	82.4	82.7	82.5	81.7	82.0	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.8	4.6	4.6	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)*	n.a.	1795	1841	1953	1875	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)	n.a.	4.1	4.4	0.2	1.5	4.6	5.5	-0.6	1.2	3.6
Retail Sales (% growth)	2.9	17.5	-6.1	2.4	3.3	13.4	2.2	8.0	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.9	-0.7	-0.8	-0.7	-0.3	-0.3	-1.5	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	2.4	4.9	2.4	4.9	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	2.4	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	3.6	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	1.6	4.3	-0.1	4.4	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.96	4.95	4.79	4.72	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	4.88	5.09	5.11	5.11	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.24	4.99	4.94	4.90	4.46	3.97	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	11257	11033	10998	11334	11189	10996	10616	10544	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **New Residential Construction: August 2006** [Release: Tuesday, September 19]
- **Producer Price Indexes: August 2006** [Release: Tuesday, September 19]
- **Federal Open Market Committee Statement on Monetary Policy** [Wednesday, September 20]